



2008 Strategic Business Plan

July 1, 2007 through June 30, 2008

Our Mission:

Montana's insurance carrier of
choice and industry leader in service.

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From the President...

"If you don't know where you are going, you are certain to end up somewhere else."

– Yogi Berra



There are many definitions of strategic planning. What it really comes down to is focusing resources — getting the pieces of the puzzle to fit together so the organization can succeed. In the absence of a solid strategic plan, most companies try to do too much with precious few assets. Instead of picking two or three key strategies to employ, they try six, or eight or more. Most just can't do this and hope to succeed. Strategic planning has no value unless the plan can be implemented and executed properly. Thinking has to be translated into action.

Strategic planning is one of the only ways an organization can plan for economic, demographic, competitive, technological and regulatory changes that affect the way it operates. So why don't more business organizations have a written comprehensive and detailed strategic plan? Why are employees in most businesses unaware of the strategic plan or uncertain of their role in its implementation? At the root of the problem is an underlying misconception about the nature of strategic planning. In fact, one of the fundamental flaws in many strategic planning efforts is that top management never defines what strategic planning is or outlines the desired outcomes of the process. The result can be a management/leadership team with different, or even conflicting, notions of why they are performing strategic planning and what the results should be.

Quite simply, strategic planning is a process of collective and informed decision making. It helps us position our efforts for lasting competitive success and guides us to intelligently implement changes to processes, systems and structure.

Strategic development is a process that needs to be continually refined. In a high-performance culture like Montana State Fund, our process is constantly being improved upon, and the plan is continually implemented at the tactical level throughout the company. Once the final plan is documented and approved by our board the real work begins; a strategic development process, unlike most business projects, is never completed.

Any one person alone in an organization cannot create an effective business strategy. Ours has been developed through a team process that relies on the highest level of collaboration among leaders throughout our organization. The management and leadership team responsible for implementing the plan have been involved in shaping the strategy from the start. We started by analyzing our strengths, weaknesses, opportunities and threats. When a management team is collectively informed about the realities of their business, they tend to make better strategic decisions.

Our vision as an organization is that we are committed to the health and economic prosperity of Montana. We know that you, our stakeholders, rely on us to be able to envision how we can maximize our resources to fulfill our mandate as a competitive state fund. It is a challenge we willingly accept.

Each year we undergo a comprehensive organizational review, looking for improvements and new ways in which we can provide services to our customers and improve efficiencies and effectiveness in our operations. We attribute much of the ongoing success we've enjoyed at MSF to our strategic planning process. I believe that after reviewing this document, you'll gain insight into what differentiates Montana State Fund from other workers' compensation carriers.

Thank you for your ongoing support.

A handwritten signature in black ink, appearing to read 'L. A. Hubbard'.

Laurence Hubbard
President/CEO

Executive Summary

Montana State Fund continues to operate in a very dynamic and competitive environment. Our future success is dependent upon our ability to anticipate changing market conditions and to adjust operational strategies accordingly. Ultimately, we will continue to weather the forces of change by responding to the needs of all those we serve. We will utilize all the resources at our disposal to build upon past successes and maintain a strong, viable and stable workers' compensation market for Montana businesses.

The strategic objectives outlined in this plan focus on those elements that enhance the satisfaction level of all the customers we serve and, at the same time, allow us to deliver that service in the most efficient and cost-effective manner. We also have established specific financial targets that quantify the results of our efforts in a meaningful way. Together, this duality not only serves to strengthen our organization, but places us in a position to meet the challenges that lie ahead.

Our Enterprise-Wide Initiatives for FY 2008:

1) Broaden and Deepen Employee Engagement

Have the best people possible, proud to be part of Montana State Fund, committed to fulfilling our commitment to our constituency.

2) Focus on Customer Satisfaction

Address the needs, wants and expectations of all customers through a differentiated level of service.

3) Create a Safer Montana

Assist Montana businesses and their employees in creating a strong culture of safety as the most important step in reducing the number of injuries occurring on the job.

4) Establish Standards as "Best in the Industry" Relative to Claim Resolution

Achieve the best outcomes in claim management by continuing to refine this most important "touch point" with customers who have placed their trust in us.

5) Provide the Appropriate Infrastructure to Allow the Realization of the Montana State Fund Vision

Provide the tools necessary for Montana State Fund employees to fulfill their responsibilities in the most efficient, effective and productive manner possible.

Strategic Framework

Mission

Montana State Fund is Montana's insurance carrier of choice and industry leader in service.

Vision

Montana State Fund is committed to the health and economic prosperity of Montana through superior service, leadership and caring individuals working in an environment of teamwork, creativity and trust.

Guiding Principles

Integrity and Ethical Conduct

In the course of providing superior service to our policyholders, their injured employees and insurance producers, we will conduct ourselves ethically and with the highest degree of integrity.

Customer Focus

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation and collaboration. Enter into strategic partnerships where appropriate to enhance the service and products we provide our customers.

Strong Financial Position

Set adequate rate levels to maintain financial strength and stability, ensuring long-term viability and financial solvency.

Offer Quality and Competitive Insurance Products

Deliver high quality products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. Function like a private insurer, offering a competitively priced product based upon actuarially sound rates while still fulfilling our role as the guaranteed market.

Employee Growth and Development

Provide a performance-driven culture within a continually improving work atmosphere that is conducive to the growth and development of our employees. Promote a customer-focused, team oriented, high performance environment that empowers, challenges and rewards our employees.

Strategic Framework/Key Success Measures

FY 2008 Key Success Measures

Key Success Measures are the goals/objectives established for fiscal year 2008. They represent S-M-A-R-T goals in that they are Specific, Measurable, Attainable, Realistic and Timely.

The following objectives represent the corporate-level success measures that will allow us to gauge our financial and strategic progress. We have incorporated five financial measures and one multi-faceted qualitative measure that, combined, define success for Montana State Fund.

- 1) Achieve targeted FY Net Operating Income before dividend of \$28.2M
- 2) Achieve total Net Earned Premium of \$221.8M
- 3) Achieve Fiscal Year Loss Ratio of 82.0%
- 4) Maintain Expense Ratio of 26.6% or less
- 5) Achieve Investment Income of \$41.5M
- 6) Achieve Enterprise-Wide Initiatives



Enterprise-Wide Initiatives

Enterprise-wide initiatives are a critical element for the continued success of Montana State Fund. They are supported by a number of multi-functional efforts (most often initiative-based) comprised of actionable key performance indicators that are measurable, ensuring the accomplishment of our stated goals and objectives. In addition, they support our vision, mission and values.

1) Broaden and Deepen Employee Engagement

Develop and nurture a culture characterized by teamwork, pleasant working conditions and considerate treatment of employees. Establish abundant training and growth opportunities.

Engage employees to bring out the best in each other as they deliver a differentiated level of service to the customers of Montana State Fund.

Key Performance Indicators

Communication – Create an enterprise-wide reporting and communication methodology to keep our leadership and employees informed of issues and decisions by management.

Training and Development – Creating the MSF University to coordinate and expand opportunities for continued growth and development for departments, teams and individual employees, as well as enhancing our tuition reimbursement program and creating a designation recognition and reward program for employees achieving the high standards required for professional certification within our industry.

Recognition and Reward – Implement or enhance alternative work schedule programs and implement CEO/VP “floor meetings” to improve employee recognition and the sharing of ideas at all levels.

Working Relations and Building the MSF Culture – Build an organization of self-discipline, respect, trust and integrity by creating shared values in order to drive accountability and issue resolution at the lowest possible level.

2) Focus on Customer Satisfaction

Listen to our customers and understand their needs. Maintain customer-centric focus and work to be recognized as the industry leader in service by continually striving to exceed customer expectations.

Key Performance Indicators

Customer Focus Recognition and Reward – Implement the program introduced in FY 2007 whereby internal and external customers recognize superior service.

Training – Continue “Through the Customers’ Eyes” training that was initiated in FY 2007 with an enhancement that includes a customer service “buddy” for all new employees.

User Friendly Documents – In response to customer concerns, explore the opportunities that exist to cut down on the volume of paper sent to our agents/policyholders and ensure the information sent is clear, concise and easily understood.

3) Create a Safer Montana

Develop a heightened awareness of the importance of a safe workplace environment that will ultimately lead to a reduction of the number of Montanans injured on the job.

Partner with our policyholders and others to raise the awareness of safety in the workplace. Recognize and innovatively reward Montana employers for their safety efforts.

Key Performance Indicators

Creating Safety Champions – Develop a culture of safety that leads to Montana employers implementing and taking full ownership responsibilities of their safety programs.

Work Safe Montana – Create a unique MSF Safety branding effort to tie all our safety efforts together.

Young Workers (Young Workers Safety Rocks) – Update the program introduced in FY 2006 that focuses on the safety awareness of young workers with specific emphasis on the agricultural sector.



4) Establish Standards as “Best in Industry” Relative to Claim Resolution

Proactively manage claims to their best outcomes in a respectful and supportive manner that utilizes our superior resources to create optimum results for all of our stakeholders.

Apply a compartmentalized, multi-disciplined approach to the claim resolution process to improve capabilities and performance.

Key Performance Indicators

Examiner Utilization and Training – Develop and deliver technical claim management training as well as soft skills training to our claim management staff. Review and recommend possible alternative claim structure(s) that enhance our claim resolution process.

Legislative/Regulatory – Provide the resources and information to the Workers' Compensation Advisory Council (established by the Montana Department of Labor and Industry) to assist in identifying solutions that address the cost of workers' compensation insurance in the state. Coordinate claim training within the organization to address legal concerns and improve knowledge of claims' examiners.

Claim Center Upgrade – Enhance, upgrade and update the performance capabilities of claim handling and processing system.

5) Provide the Appropriate Infrastructure to Allow the Realization of the Montana State Fund Vision

Provide the appropriate working environment and the necessary technology and other tools to allow the employees of Montana State Fund to most effectively and efficiently service customers.

Construct a physical work environment that is conducive to superior performance while recognizing our responsibilities as good corporate citizens and stewards of the environment. Develop and provide leading-edge tools that allow Montana State Fund employees to maximize their contribution to those we serve.

Key Performance Indicators

Financial Reporting – Identify and implement improved financial reporting systems and methodologies that provide timely and accurate financial data and its transformation into standardized financial reporting format(s).

Insurance Intelligence – Develop a data repository, reporting and query capability that facilitates organizational decision-making.

Physical Plant – Coordinate the construction of and facilitate the relocation into a new building that houses all MSF employees.

Organizational Profile

The state of Montana originally established the predecessor to Montana State Fund (MSF) in 1915 to function as a competitive workers' compensation insurance carrier. Since then, MSF has operated under a number of different forms, with its current structure resulting from legislative actions taken in 1990. At that time, the legislature separated the workers' compensation regulatory function (originally established in the Montana Department of Labor and Industry) from the day-to-day insurance operations responsibilities (which were vested in a separate, new entity known as Montana State Fund). A seven member Board of Directors, appointed by the governor, governs the operations of Montana State Fund. The board is also responsible for appointing the president/CEO.

Montana State Fund is a self-sufficient, not for profit, workers' compensation insurance carrier. Our statutory purpose is to act as a competitive insurance carrier, providing an available market, thereby guaranteeing coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premium dollars paid by the insured employers and the net proceeds from our investments. We function like a private insurance carrier in a competitive marketplace and, as provided by law, perform all the functions and exercise all the powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the Montana State Fund.

MSF has undergone a number of changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is more adapted to the demands of the information age. A comprehensive corporate redesign in 2000 enhances our operational flexibility with the addition of multi-functional teams that are aligned with specific groups of employers. This change resulted in a "flatter" organization, increasing employee empowerment, which allows us to work more closely with our policyholders and their injured employees. We continue to strive to improve efficiencies in all operational areas and have made a major investment in our safety management services, working diligently with Montana employers in developing accident prevention programs. As our state's economic structure continues to evolve, we stand ready to continue filling our critical role as the guaranteed workers' compensation market for all Montana employers.



Financial Projection

Projected Results of Operations Montana State Fund

Statutory Basis (\$000)

Operating Statement

	Actual 2006	Estimate 2007	Plan 2008	Projection 2009 2010	
Premium Income	\$211,892	\$233,055	\$221,823	\$229,582	\$236,905
Investment Income	32,184	36,721	41,471	46,538	51,298
Other Income (loss)	(3,773)	(3,144)	(3,323)	(3,421)	(3,523)
Total Losses and Expenses	225,182	250,040	231,779	234,098	240,848
Policyholder Dividend	5,001	7,000	TBD	TBD	TBD
Net Income	\$10,120	\$9,592	\$28,192	\$38,601	\$43,832

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus Ratio (X:1)*	1.26	1.22	1.06	0.93	0.82
Loss Reserve to Surplus Ratio (X:1)*	3.51	3.55	3.52	3.20	2.91
FY Combined Ratio (Loss+LAE+UW)	106.27%	107.29%	104.49%	101.97%	101.66%
Dividend to Premium Ratio	2.36%	3.00%	TBD	TBD	TBD

* Ratios prior to any dividend declaration

Balance Sheet

Total Assets	\$937,531	\$1,030,124	\$1,113,822	\$1,204,084	\$1,298,505
Unpaid Loss and Loss Adj. Exp.	\$590,688	\$677,068	\$735,465	\$788,286	\$840,382
Other Liabilities	183,741	169,448	169,146	169,382	169,684
Total Liabilities	\$774,429	\$846,516	\$904,611	\$957,668	\$1,010,066
Surplus	\$163,102	\$183,608	\$209,211	\$246,416	\$288,439
Total Liabilities and Surplus	\$937,531	\$1,030,124	\$1,113,822	\$1,204,084	\$1,298,505



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